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Report

Office of Internal Audit

Department of Public Works

Body Repair Contracts Newburg Road

October 2003



Department of Public Works

Body Repair Contracts

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LOUISVILLE, KENTUCKY

OFFICE OF INTERNAL AUDIT

JERRY E. ABRAMSON
MAYOR

RON WESTON
PRESIDENT, METRO COUNCIL

Transmittal Letter

October 6, 2003

Councilwoman Denise Bentley
Louisville Metro Council
601 West Jefferson Street
Louisville, KY 40202

Subject: Review of Body Repair Contracts (Newburg Road)

Introduction

As requested, we reviewed vehicle body repair activity at Newburg Road. This was a contract compliance review, focusing on repair activity covered under price contract B-22532. Particular attention was given to the distribution of repair activity to the seven vendors covered by this contract. The contract specifies the format and procedures for estimates for each vehicle body repair action. This includes the number of contract estimates required and the treatment of supplemental repairs. As illustrated in the Appendix, payments to the seven vendors covered by this contract have exceeded \$235,000 for fiscal year 2003.

Scope

The operating procedures for administering vehicle body repairs were reviewed through interviews with key personnel. The primary focus was operational administration of vehicle body repair activity, including awarding of work. Various reviews of sample data from July 1, 2002 through June 30, 2003 were performed. The methodology will be addressed in the Observations and Recommendations section of this memorandum. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards and with the Standards for the Professional Practice of Internal Auditing. Our examination would not reveal all weaknesses because it was based on selective review of data.

Opinion

It is our opinion that contract compliance for vehicle body repairs at Newburg Road is inadequate. Several problems were noted as illustrated in the following examples.

- The requirements of the vehicle body repair vendor contracts are not adhered to. Vendors may not be contacted to provide estimates as required, especially for repairs estimated to cost less than \$500. Contract timeliness requirements are not documented.
- Monitoring of activity is inadequate. This lack of oversight does not adequately ensure compliance with contractual requirements.
- Files do not contain sufficient documentation to ensure activity is processed in accordance with all requirements and that activity is appropriate. This includes incomplete, inaccurate, or missing supporting documentation.
- Functional operating policies and procedures are not documented and provided for staff. This may lead to inconsistencies in administration and management of activities.

Detailed results are noted in the following Observations and Recommendations section. It should be noted that the Cabinet Secretary for Public Works and Services, as well as the Department of Public Works, was extremely cooperative and responsive. Immediate action was taken to address the problems identified. A corrective action plan has been implemented as detailed in the response from the Cabinet Secretary. This response is incorporated into this memorandum.

Sincerely,

Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Members

Observations and Recommendations

Methodology

Key personnel were interviewed to gain an understanding of the administration, processing, and records management associated with vehicle body repair services. This focused on activity administered by the Newburg Road facility only. There were a total of 182 invoices for the seven contract vendors for the period July 1, 2002 through June 30, 2003. These were identified from the financial coding used by the Newburg Road facility.

A sample of repair activity payments for fiscal year 2003 was reviewed. This included a judgmentally selected sample of twenty transactions. Vendor estimates, invoices, and supporting documentation were examined to determine the authorization, completeness, appropriateness, and adherence to contractual requirements. The following concerns were noted.

Observations

There were some major problems noted with the vehicle body repair activity. This includes compliance with the vendor contract requirements. Examples include the following.

- According to the vendor contract agreements, Newburg Road staff are responsible for contacting the vendors to provide estimates, awarding repair work, and the scheduling of repair services. The contract requires that at least three estimates be obtained for repair services. Actual practices do not adhere to the contractual requirements regarding vendor estimates/bid processes. Examples include the following.
 - Newburg Road staff members explained that if it is determined that the repair may not exceed \$500, then the contract estimate requirements may not be used. The repair vendor may be selected at the discretion of the Supervisor. Activity less than \$500 is detailed in the Appendix.
 - There were several instances in which three bids were not obtained from the authorized vendors. In many cases, only one contractor was contacted to provide an estimate.
 - There is not sufficient documentation to record the factors that determine which contractors will be contacted to provide estimates. This could lead to the appearance of favoritism among the contractors.
- According to the contract, Newburg Road staff may consider the ability of the vendor to complete repairs in a timely manner when awarding individuals bids. The vendor estimates do not routinely include any indication of an estimated time in which work is to be completed. This does not allow for adequate documentation of issues that may be considered when awarding repair work.
- There were several instances in which the initial estimate did not agree to the actual services rendered. This treatment would apply for "OPEN" items for hidden damage, (e.g., repair costs for items that cannot be determined through a simple viewing). In some cases, components/parts may need to be replaced after being observed during the actual repair process. The contract specification require that all supplemental

payments must be related to an item that was noted as "OPEN" on the initial estimate. In addition, the fleet supervisor must grant prior approval for the supplemental work.

- Supplemental awards may not be adequately documented. Approval for supplemental work is normally authorized by the supervisor via telephone to the contractor. Even though there may not be an authorized signature to document approval, the office assistant views the fleet management system to determine whether or not the supplemental work is included on the work order. Since the supervisor is the only staff member that should be posting information to the work order, Fleet staff accept the existence of supplemental information on the work order as its authorization.
- There does not appear to be adequate, documented tracking of contract time requirements. Fleet staff do not monitor viewing dates versus the dates estimates are received. According to the contract bid specifications, estimates are due within 3 working days after viewing the damage. Facsimile estimates are accepted and encouraged.
- There were several instances in which supporting documentation was incomplete, inaccurate, or missing.
 - There were several transaction files in which a Wreck/Damage Sheet was not included in the file.
 - The estimated repair costs on the Wreck/Damage Sheet were incomplete or inaccurate in some cases.
- While the repair facilities do have Standard Operating Procedures that document the administrative processing of vehicle repairs and input into the vehicle management system, there is not any type of documented manual or detailed desk procedures for staff performing assigned tasks. This may lead to inconsistencies in administration and management of activities.
 - The Fleet staff explained that the equipment shop and sedan job had historically been operated as two separate operations. The equipment shop mainly supported Public Works, including heavy equipment, trucks and some passenger vehicles. The sedan shop was managed by Jefferson County Police commanders and primarily serviced police vehicles. There was little coordination of efforts or administrative functions between the two shops. Metro Public Works managers now administer both shops.
 - There is not a uniform record/file management system practiced. Each garage supervisor maintains files for their vehicles. The equipment shop maintains a file by equipment number, while the sedan garage supplements its files with dedicated files by vehicle number for body repairs only. A copy of repair information (accident report, bid/estimates and wreck/damage sheet) is retained in a file maintained by each garage.
 - The garage supervisor has the authority to assign repair work, determine the contractor and approve the service. There is no other type of administrative review or approval required to process repair activity. While most repair work should be awarded to the low bidder, the garage supervisor may use discretion in order to award the work to the best contractor. The discretionary decisions may not always be documented.

- The bid specifications state that estimates must be provided on an “Estimate of Repair” form. Fleet staff were not aware of any uniform format that this may refer to and standard contractor estimates are accepted.

Recommendations

Appropriate Fleet Services personnel should take necessary action to address the issues noted. Specific recommendations include the following.

- ✓ All contractual requirements should be adhered to. Although there may be legitimate, practical reasons for processing activity in another manner, departments do not have the discretion to disregard contractual requirements.
- ✓ The Purchasing Department should be consulted to determine the best way to administer vehicle body repair activity. Available industry best practices should be adopted. Other possibilities include contracting with an appraisal firm and rotating the work to the contract vendors, or using one vendor.
- ✓ Since it may take some time to determine the best way to proceed with future contracts, a contingency plan for dealing with the expiration of the existing contracts is needed. The current County body repair contracts expire on September 30, 2003, the City contracts on March 31, 2004. It may be necessary to process all activity under the City contracts, or extend the County contracts until March (if feasible).
- ✓ From a practical standpoint, a minimum threshold requiring estimates should be considered. However, procedures should be sufficient to ensure that the work is distributed equitably among the contract vendors.
- ✓ Written policies and procedures for repair activity should be developed and updated periodically. These should correspond with and supplement applicable vendor contracts and Metro Government policies and procedures. This documentation should be distributed to all applicable personnel. This manual should include sufficient detail of the steps performed, copies of forms used and policies followed in the process, and routine monitoring responsibilities to ensure that activity adheres to contract guidelines (e.g., estimate requirements, labor rates, parts discounts, etc.). In addition, training of key personnel will help ensure consistent adherence to the requirements.
- ✓ Sufficient documentation should be maintained to record the basis for awarding repair services. This includes all determining factors (e.g., low bid, turn around time, etc.).
- ✓ Vehicle files should be maintained with complete information.
- ✓ Supervisory oversight should include the review of all estimates to ensure they are comparable (e.g., all include “OPEN” items, same degree of services, etc.).
- ✓ The Human Relations Commission and the County Attorney should be consulted to determine the ramifications of the lack of compliance with the contract requirements.

Appendix

Vehicle Body Repair Payments Fiscal 2003

Vendor Name	Total Paid	% of Total Paid	# Invoices	% of Total Invoices
Auto Truck & Fiberglass	\$78,241	33.2%	82	45.1%
Hall's Collision Center	\$64,411	27.4%	36	19.8%
Auto Warehouse	\$50,872	21.6%	37	20.3%
A.L. Hansen	\$21,913	9.3%	11	6.0%
Auto Body and Frame	\$10,101	4.3%	9	4.9%
Clifford's Inc.	\$9,839	4.2%	7	3.8%
JM Body Shop	\$0	0%	0	0%
Total	\$235,377		182	

Vehicle Body Repair Payments Fiscal 2002

Vendor Name	Total Paid	% of Total Paid	# Invoices	% of Total Invoices
Auto Warehouse	\$97,514	33.9%	76	28.8%
Auto Truck & Fiberglass	\$88,332	30.7%	115	43.6%
Hall's Collision Center	\$61,343	21.3%	24	9.1%
A.L. Hansen	\$26,957	9.4%	34	12.9%
Clifford's Inc.	\$12,660	4.4%	14	5.3%
Auto Body and Frame	\$639	0.2%	1	0.4%
JM Body Shop	\$0	0%	0	0%
Total	\$287,445		264	

Activity under \$500 Threshold

Vendor Name	Fiscal Year 2003		Fiscal Year 2002	
	# Invoices	Total Paid	# Invoices	Total Paid
Auto Truck & Fiberglass	35	\$9,590	70	\$19,397
Auto Warehouse	13	\$4,781	39	\$16,773
Auto Body and Frame	4	\$1,503	0	\$0
Hall's Collision Center	4	\$1,455	2	\$707
Clifford's Inc.	3	\$1,219	5	\$1,395
A.L. Hansen	0	\$0	17	\$2,403
JM Body Shop	0	\$0	0	\$0
Total	59	\$18,548	133	\$40,675

Cabinet Secretary for Public Works and Services Response

The response from the Cabinet Secretary for Public Works and Services begins on the following page. It should be noted that the Cabinet Secretary and the Department of Public Works have been very responsive. Corrective actions were immediately implemented.


MEMORANDUM

LOUISVILLE-JEFFERSON COUNTY
METRO GOVERNMENT

LOUISVILLE METRO
OFFICE OF INTERNAL AUDIT

2003 OCT -6 AM 9:37

TO: Michael Norman, CIA
Department of Internal Audit

FROM: Rudolph Davidson, Secretary 
Cabinet of Public Works & Services Cabinet

DATE: September 30, 2003

RE: Review of Body Repair Contracts (Newburg Road)

On August 13, 2003, I met with the Newburg Road supervisors who are responsible for the heavy equipment and sedan garages. Both stated they had never seen the contract or had it explained to them by their immediate supervisor. They operated from past practices handed down to them by their predecessors. I found this to be the case in my interviews with both Logan Street Garage supervisors and this group. One supervisor had been in his position for only 6 months and the other just over a year. Their best understanding was they had the authority to make decisions on repairs. As a result of my interviews and a review of the audit report my decision is not to take any disciplinary action on the staff for failure to comply with contract procedures. My decision is based on the following:

- Since January of this year the Newburg Road garage has undergone a major reorganization, unlike the Logan Street Garage that has remained largely intact with staff performing the same functions.
- In my opinion the decision making process by the supervisors at Newburg Road garage showed a fairer allocation of work. Page 7 of your report demonstrated that no one vendor was allocated the bulk of the work during the two-year comparison.
- A fleet manager was hired this past May. In the 90 days he had been on the job, it is unrealistic to believe he could have addressed all the reorganization and contract issues prior to the audit.

My decision in no way excuses the supervisors or managers of their responsibilities to comply with the contract provisions. Management has advised they must follow the current contract provisions and failure to comply will result in disciplinary action. The current County body repair contract expires September 30, 2003. The Purchasing Department has informed us that all new contracts must comply with Kentucky State Procurement Code Regulations. In addition to complying with the State regulations I have directed the recommendations in your audit report be incorporated in the new contract and in the new written policies and procedures.

If you have any questions please feel free to contact me on Extension 6020.

C: Rick Johnstone
Jim Adkins
Ed Meece
File